



CITY OF BRIDGMAN, MICHIGAN

Comprehensive Annual Financial Report

**For The Fiscal Year Ended
June 30, 2004**

Prepared by:

Treasurer's Department

AUDITING PROCEDURES REPORT

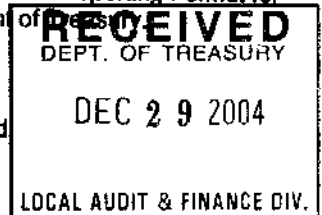
Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Bridgman	County Berrien
Audit Date 6/30/04	Opinion Date 9/3/04	Date Accountant Report Submitted to State: DECEMBER 22, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X	X	
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

CITY OF BRIDGMAN, MICHIGAN
For the Fiscal Year Ended June 30, 2004

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INTRODUCTORY SECTION



9765 Maple Street P.O. Box 366 Bridgman, MI 49106 tel 616•465•5144 fax 616•465•3701

September 3, 2004

**To the Honorable Mayor, Members of the City Commission
and Citizens of the City of Bridgman:**

State law requires that all local governments, subject to certain size criteria, publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Bridgman for the fiscal year ended June 30, 2004.

This report consists of management's representations concerning the finances of the City of Bridgman (the "City" or the "government"). Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, City management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Rehmann Robson, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2004 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2004 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Bridgman is located in Berrien County in the southwestern corner of Michigan. The City is 16 miles north of Indiana and includes over a mile of frontage on Lake Michigan. Land area is approximately 2.9 square miles with a population of 2,428 based on the 2000 census. Bridgman was fully incorporated as a home rule city in 1949 with the passage of its charter, and employs the commission-manager form of government. The City is empowered to levy a property tax on both real and personal property located within its boundaries. The City also has the power by state statute to extend its corporate limits by annexation, which is done periodically, when deemed appropriate by the City Commission.

The City has operated under the commission-manager form of government since 1949. Policymaking and legislative authorities are vested in the governing Commission, a seven-member Commission including the mayor. The governing Commission is responsible, among other things, for passing ordinances and resolutions; making public policy decisions; adopting annual budgets; appointing boards, commissions, and committees; approving contracts; authorizing real estate transactions; approving payments; awarding bids; selling personal property; and hiring the city's manager and attorney. The City Manager is responsible for carrying out the policies and ordinances of the governing Commission, for supervising the day-to-day operations of the government, and for appointing the heads of the City's departments. The Commission is elected on a non-partisan basis. Commission members are elected to four-year staggered terms with three Commission members elected one year and four in two years. The mayor is elected for a four-year term from within the commission. The Commission members are elected at-large.

The City of Bridgman provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets and other infrastructure; sewage treatment and disposal; water treatment and distribution; garbage removal; economic development; recreational activities; and cultural events.

The annual budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriation to the City Manager each year. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the commission for review prior to the start of each fiscal year. The commission is required to hold public hearings on the proposed budget, and to adopt a final budget no later than June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations with a department. Transfers of appropriations between departments, however, require the special approval of the City Commission. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. These comparisons are presented as part of the basic financial statements beginning on page 22.

The City of Bridgman, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

The City's governmental funds are the General Fund, Major Street Fund, Local Street Fund, Public Improvement Fund, General Debt Service Fund, and Building Authority Fund. The City's proprietary funds are the Parks Fund, Sewer Fund and Water Fund. As the City collects its own taxes as well as the taxes for other governmental entities, it has a fiduciary Tax Collection Fund.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Bridgman operates.

Local economy. The City of Bridgman has a stable economic base consisting of a mix of industrial/commercial, residential and tourism-based enterprises. Land use in the 2.9 square mile City indicates that the primary mix is 50% residential, 30% industrial/commercial, with the remaining 20% in recreational, governmental and vacant land.

The City's water and wastewater systems both have capacity that exceeds the average daily usage. The water plant has a maximum daily capacity of 1.4 million gallons and an average daily consumption of 320,000 gallons. The wastewater system has a maximum daily capacity of 500,000 with an average daily treatment of 295,000 gallons.

The school system, which serves the City of Bridgman as well as outlying areas, was named one of the top 100 in the country in 1996.

Bridgman has shown regular growth since 1960 with a net population change of 67% over the 40 years (based on the 2000 Census data). From 1990 to 2000, the City grew 13.5% and was the only city in Berrien County that grew during the 1990-2000 decade.

The City maintains a proactive approach for the present and future by instituting capital improvements in streets and park facilities. During fiscal year 2004, the City completed an addition to the Water Plant and began a re-roofing project of the Beach House at Weko Beach.

Long-term financial planning. Because of the City's diversified local economy, it saw a growth in its tax base in fiscal year 2004. Manufacturing facilities are encouraged to locate in the City through the approval of Industrial Facilities Tax Abatements and other measures. However, like other local units of government around the County, it is experiencing decreases in state revenue sharing. The General Fund fund balance amounts to 78% of the fund's annual expenditures. This percentage of fund balance is expected to be maintained in the future through prudent management of its financial resources.

Cash management policies and practices. The City is conservative in its approach to cash management. In general, cash is deposited upon receipt into interest-bearing cash-management accounts. Due to the federal limits placed on the number of withdrawals executed on interest-bearing accounts within a given month, there are funds that cannot utilize them. Protecting taxpayers against potential deficits is emphasized in the City's investment strategy.

Risk management. Under a comprehensive plan of risk management, the City maintains property, liability, and workers' compensation insurance coverage through the Michigan Municipal League insurance pools.

Pension benefits. In 1996, the City began providing pension benefits to all of its full-time employees through a defined contribution plan. Additional information on the City's retirement system can be found in Note IV.C. in the notes to the financial statements.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Bridgman for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. This was the third consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfies both GAAP and applicable legal requirements.

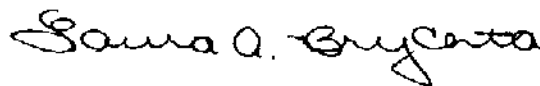
A Certificate of Achievement is valid for a period of one year. We believe that our current CAFR meets the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the City of Bridgman. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing Commission for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Bridgman's finances.

Respectfully submitted,



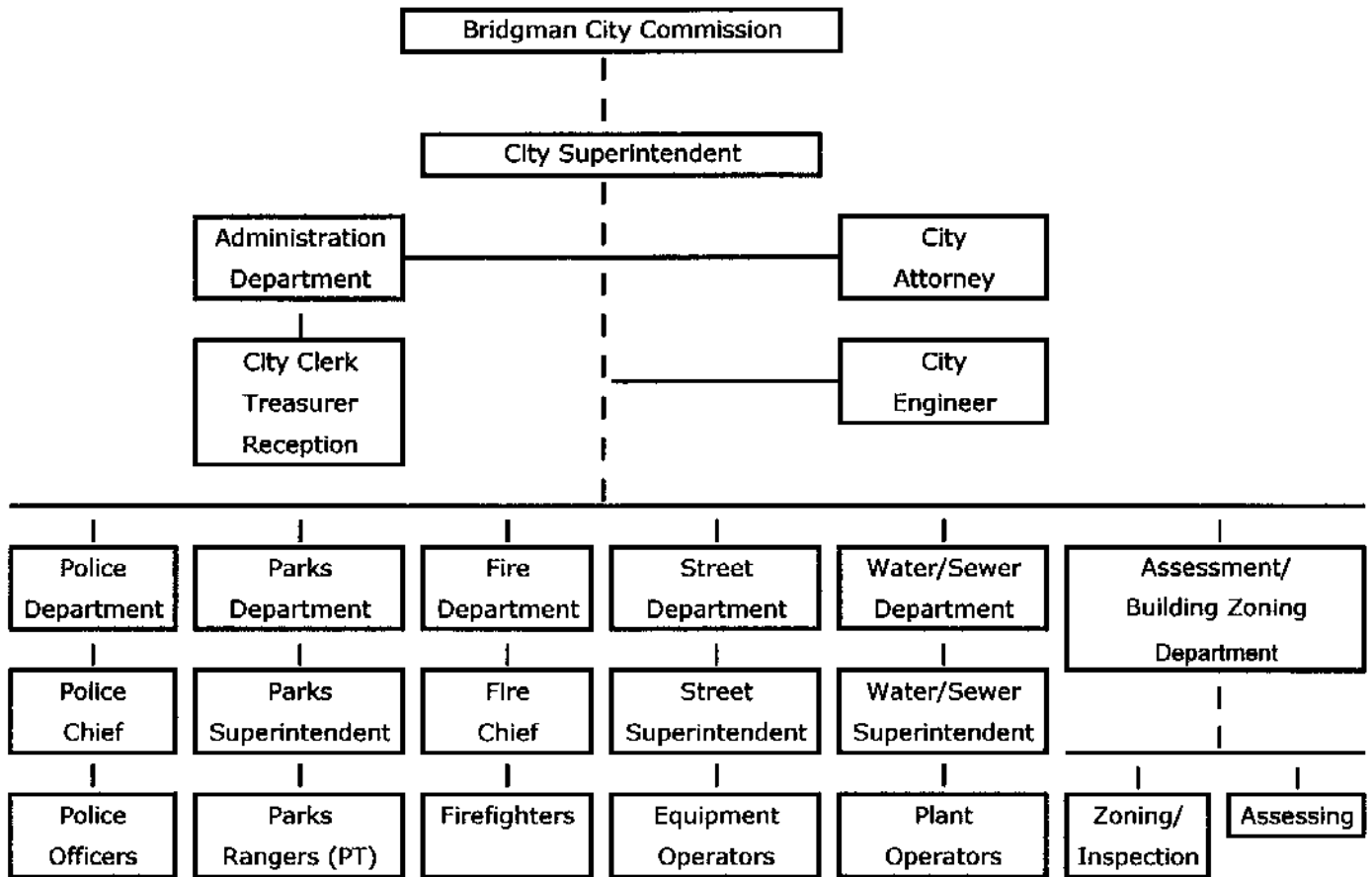
Aaron L. Anthony
City Superintendent



Laura A. Brychta
Treasurer

CITY OF BRIDGMAN, MICHIGAN

Organizational Chart



CITY OF BRIDGMAN, MICHIGAN
List of Elected and Appointed Officials
For the Fiscal Year Ended June 30, 2004

Elected Officials

Mayor
Mayor Pro Tem
Council Member
Council Member
Council Member
Council Member
Council Member

Ron Birmingham
William H. Boyd
Kathy Ramso
Jim A. Catania
Dorothea Crocker
Linda Geddeon-Kuhn
Robert Liskey

Appointed Officials

City Superintendent
Assessor
Clerk
Utility Services & Parks Superintendent
Public Works Superintendent
Police Chief
Fire Chief
Treasurer
Building Inspector

Aaron L. Anthony
Patricia A. DePriest
Elaine E. Thomas
Tim M. Kading
Richard H. Knuth
Ted Post
Elwood Munson
Laura A. Brychta
William H. Boyd, Jr.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Bridgman,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

FINANCIAL SECTION



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

September 3, 2004

The Honorable Mayor and
Members of the City Council
City of Bridgman
Bridgman, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **CITY OF BRIDGMAN, MICHIGAN**, as of and for the year ended June 30, 2004, which collectively comprise the basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Bridgman, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the general fund and each major special revenue fund, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The capital assets schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Rehmann Lohman

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

As management of the *City of Bridgman, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-iv of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$11,635,304 (net assets), a decrease of \$1,484,156 over the prior year. Of this amount, \$1,936,965 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,623,239, an increase of \$99,163 in comparison with the prior year. Approximately 99% of this total amount, or \$1,615,956 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,157,480, or 69% of total general fund expenditures and transfers out.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and highways and streets. The business-type activities of the City include water and sewer operations as well as parks and recreation.

The government-wide financial statements include not only the City itself (known as the primary government), but also two component units. The Brownfield Development Authority is a legally separate authority for which the City is financially accountable. The Authority had no assets as of June 30, 2004 and no activities for the year then ended. The City of Bridgman Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 15-17 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Following the governmental funds balance sheet and the governmental funds statement of revenue, expenditures, and changes in fund balances, reconciliations are provided to facilitate this comparison between governmental funds and governmental activities.

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general, major street, local street, public improvement, general debt service, and building authority funds, each of which are considered to be major funds. The City of Bridgman has no nonmajor funds.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 18-26 of this report.

Proprietary funds. The City maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sanitary sewer and water distribution operations, as well as parks and recreation. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its vehicle and equipment maintenance activities. Because this service predominantly benefits governmental rather than business-type functions, the assets and liabilities of the internal service fund have been included within governmental activities in the government-wide statement of net assets.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water operations, as well as parks and recreation, all of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 27-32 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The City only accounts for one type of fiduciary fund, which is an *agency* fund. This fund is used to account for tax collections by the City of Bridgman on behalf of other governments. Agency funds are unlike other types of funds and report only assets and liabilities. Therefore, they do not have a measurement focus, but do, however, use the accrual basis of accounting to recognize receivables and payables.

The City's Agency Fund had no assets or liabilities at year end, and accordingly, no fiduciary financial statements are presented in the basic financial statements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33-50 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Bridgman, assets exceeded liabilities by \$11,635,304 at the close of fiscal 2004.

City of Bridgman's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 2,407,135	\$ 2,375,838	\$ 3,549,495	\$ 1,551,757	\$ 5,956,630	\$ 3,927,595
Capital assets, net	6,230,935	6,574,866	3,953,889	4,095,677	10,184,824	10,670,543
Total assets	<u>\$ 8,638,070</u>	<u>\$ 8,950,704</u>	<u>\$ 7,503,384</u>	<u>\$ 5,647,434</u>	<u>\$ 16,141,454</u>	<u>\$ 14,598,138</u>
Long-term liabilities outstanding	570,193	822,211	3,750,080	550,495	4,320,273	1,372,706
Other liabilities	64,339	61,926	121,538	44,046	185,877	105,972
Total liabilities	<u>634,532</u>	<u>884,137</u>	<u>3,871,618</u>	<u>594,541</u>	<u>4,506,150</u>	<u>1,478,678</u>
Net assets:						
Invested in capital assets, net of related debt	5,694,849	5,794,862	3,543,889	3,560,677	9,238,738	9,355,539
Restricted	459,601	439,866	-	-	459,601	439,866
Unrestricted	<u>1,849,088</u>	<u>1,831,839</u>	<u>87,877</u>	<u>1,492,216</u>	<u>1,936,965</u>	<u>3,324,055</u>
Total net assets	<u>\$ 8,003,538</u>	<u>\$ 8,066,567</u>	<u>\$ 3,631,766</u>	<u>\$ 5,052,893</u>	<u>\$ 11,635,304</u>	<u>\$ 13,119,460</u>

By far the largest portion of the City's net assets (79.4 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (16.6 percent or \$1,936,965) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net assets decreased by \$1,484,156 during the current fiscal year. The primary reason for this decrease is a one-time expense relative to the City's buy-in to the Galien River Sanitary District (GRSD) Sewer Authority using a general obligation bond issuance that will be used to finance the improvements to and expansion of the wastewater treatment plant.

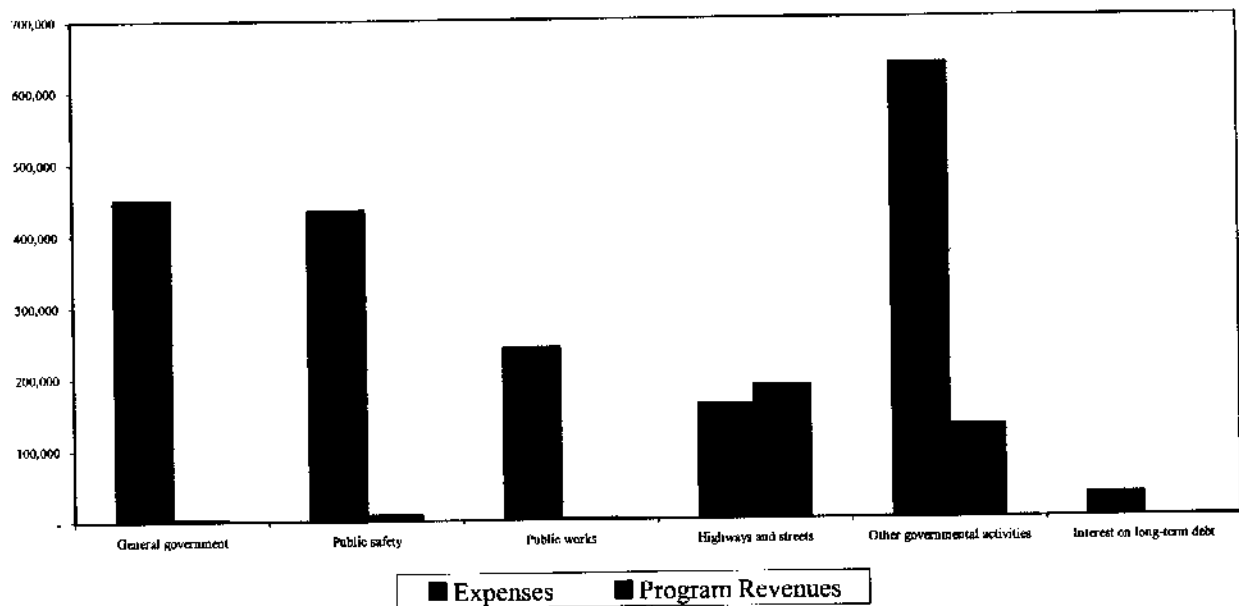
In an effort to offset the impact of the buy-in and related bond issuance, sewer rates, including both the in-readiness-to-serve charge and the commodity price, were increased approximately 14% last fiscal year and again this fiscal year. These rates are scheduled to be increased by roughly the same amount each of the next three fiscal years.

City of Bridgman's Changes in Net Assets

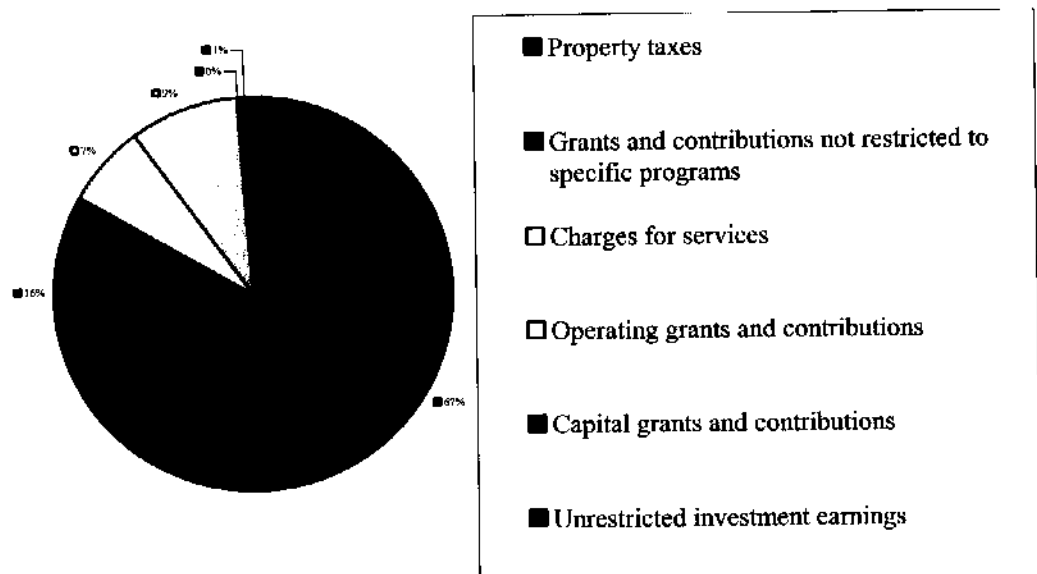
	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue:						
Program revenue:						
Charges for services	\$ 138,437	\$ 135,930	\$ 939,282	\$ 832,484	\$ 1,077,719	\$ 968,414
Operating grants and contribution	188,950	174,706	-	-	188,950	174,706
Capital grants and contributions	(1,525)	-	-	41,159	(1,525)	41,159
General revenue:						
Property taxes	1,415,100	1,372,011	-	-	1,415,100	1,372,011
Grants and contributions not restricted to specific programs	332,077	291,762	3,569	8,203	335,646	299,965
Other	21,104	25,484	2,637	4,725	23,741	30,209
Total revenue	2,094,143	1,999,893	945,488	886,571	3,039,631	2,886,464
Expenses:						
General government	449,860	361,480	-	-	449,860	361,480
Public safety	434,042	399,560	-	-	434,042	399,560
Public works	240,407	161,929	-	-	240,407	161,932
Highways and streets	159,845	436,368	-	-	159,845	436,368
Other governmental activities	634,547	364,354	-	-	634,547	364,354
Interest on long-term debt	31,471	44,430	-	-	31,471	44,430
Parks	-	-	233,410	246,153	233,410	246,152
Sewer	-	-	1,882,112	309,382	1,882,112	309,382
Water	-	-	458,093	355,757	458,093	355,757
Total expenses	1,950,172	1,768,121	2,573,615	911,292	4,523,787	2,679,415
Increase in net assets before transfers	143,971	231,772	(1,628,127)	(24,721)	(1,484,156)	207,049
Transfers	(207,000)	(270,000)	207,000	270,000	-	-
Increase in net assets	(63,029)	(38,228)	(1,421,127)	245,279	(1,484,156)	207,051
Net assets, beginning of year	8,066,567	8,104,795	5,052,893	4,807,614	13,119,460	12,912,409
Net assets, end of year	\$ 8,003,538	\$ 8,066,567	\$ 3,631,766	\$ 5,052,893	\$ 11,635,304	\$ 13,119,460

Governmental activities. Governmental activities decreased the City's net assets by \$63,029. Interfund transfers notwithstanding, governmental activity resulted in an increase in net assets of \$143,971. About half of this increase resulted from an increase in property tax revenue, along with a slight increase in the State of Michigan's shared revenue.

Expenses and Program Revenues - Governmental Activities

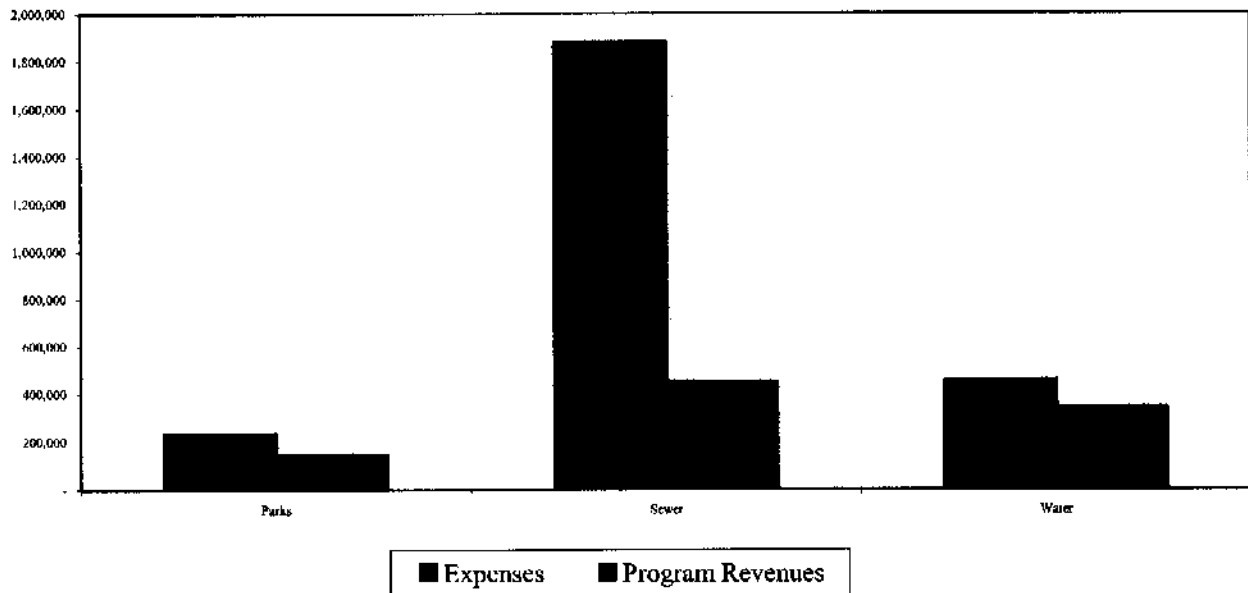


Revenue by Source - Governmental Activities



Business-type activities. Business-type activities decreased the City's net assets by \$1,421,127. Interfund transfers notwithstanding, the business-type activity resulted in a decrease in net assets of \$1,628,127. This significant decrease was almost entirely due to the sewer fund's buy-in to the GRSD, and related bond issuance, as discussed above.

Revenue and Expenses – Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,623,239, an increase of \$99,163 in comparison with the prior year. Approximately 99 percent of this total amount, \$1,615,956, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance, \$7,283 is reserved to indicate that it is not available for new spending because it has already been committed to pay for other restricted purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,157,480, while total fund balance was \$1,163,638. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 69% of total general fund expenditures and transfers out.

The fund balance of the City's general fund increased by \$79,428 during the current fiscal year. This reflects the increase in the City's taxable value, which resulted in a higher level of property taxes collected of approximately \$43,089.

The major street fund has a total fund balance of \$94,324, an increase of \$48,591. The primary reason for the increase over last fiscal year is because there were no transfers out this year, while the transfer out last fiscal year amounted to \$90,000.

The local streets fund had a slight increase in fund balance for the current year of \$3,591 for an ending total of \$22,000. Prior to the transfer from the general fund of \$25,000, the local streets fund had a loss of \$21,409.

The public improvement fund has a total fund balance of \$103,163, which will be used to complete the current street projects.

The general debt service fund has a total fund balance of \$117,350, all of which is intended for the payment of debt service.

The building authority fund has a total fund balance of \$122,764, all of which is intended for the payment of debt service.

Enterprise funds. The City's enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the parks, sewer and water enterprise funds at the end of the year amounted to \$179,934, (\$634,969) and \$482,130, respectively.

General Fund Budgetary Highlights

There were no differences between the original and final amended budgets for expenditures or transfers out. Actual expenditures were generally comparable to budgeted amounts, except for outgoing transfers, which were \$127,000 less than budgeted due to other funds requiring smaller than expected appropriations.

Actual revenues compared favorably to budget, providing \$233,181 more than anticipated due to increases in taxable value for property taxes, and increased state shared revenues.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its government and business-type activities as of June 30, 2004, amounted to \$10,184,824 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads and highways. The City's outlay in capital assets for the current fiscal year was nominal.

Capital asset events during the current fiscal year included the following:

- An addition to the Water Plant in the amount of \$31,700
- The replacement of a police car for \$24,236
- The replacement of the street superintendent's truck for \$26,938
- A new Sterling dump truck for \$75,280
- Beginning a reproofing project on the Beach House at Weko Beach for \$8,196, which will be completed during fiscal 2005

City of Bridgman's Capital Assets (net of depreciation)

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 134,600	\$ 144,600	\$ 59,293	\$ 59,293	\$ 193,893	\$ 203,893
Buildings and systems	818,912	923,094	3,886,728	4,022,119	4,705,640	4,945,213
Vehicles and equipment	609,664	587,755	7,868	14,265	617,532	602,020
Infrastructure	4,667,759	4,919,417	-	-	4,667,759	4,919,417
Total	\$ 6,230,935	\$ 6,574,866	\$ 3,953,889	\$ 4,095,677	\$ 10,184,824	\$ 10,670,543

Additional information on the City's capital assets can be found in note III.C. on pages 42-43 of this report.

Long-term debt. At the end of the current fiscal year, the City had total installment debt outstanding of \$4,271,076. Of this amount, \$3,809,990 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds), and installment purchase contracts.

City of Bridgman's Outstanding Debt

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
General obligation bonds	\$ 485,000	\$ 625,000	\$3,324,990	\$ -	\$3,809,990	\$ 625,000
Special assessment bonds	25,000	100,000	-	-	25,000	100,000
Revenue bonds	-	-	410,000	535,000	410,000	535,000
Installment purchase contracts	26,086	55,004	-	-	26,086	55,004
Total	\$ 536,086	\$ 780,004	\$3,734,990	\$ 535,000	\$4,271,076	\$ 1,315,004

The City's total outstanding debt increased significantly by \$2,956,072 during the current fiscal year. This is due to the recording of the bond issuance for the sewer upgrade in the amount of \$3,324,990.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total taxable value. The current debt limitation for the City is \$9,500,570, which is significantly in excess of the City's outstanding general obligation debt of \$3,809,990.

Additional information on the City's long-term debt can be found in note III.F on pages 45-47 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- Projections of commercial, industrial, tourism and residential growth potential;
- Economic indicators for the region and local development projects currently proposed and or underway;
- Growth and development trends as a result of the 2000 Census;
- Projected staff and capital improvements projects by the City;
- Available taxing, bonding and grant resources.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 9765 Maple Street, P.O. Box 366, Bridgman, MI 49106.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF BRIDGMAN, MICHIGAN

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 2,442,889	\$ 487,211	\$ 2,930,100
Receivables	227,311	119,472	346,783
Internal balances	(271,085)	271,085	-
Prepaid items and other assets	8,020	2,671,727	2,679,747
Capital assets not being depreciated	134,600	59,293	193,893
Capital assets being depreciated, net	<u>6,096,335</u>	<u>3,894,596</u>	<u>9,990,931</u>
Total assets	<u>8,638,070</u>	<u>7,503,384</u>	<u>16,141,454</u>
Liabilities			
Accounts payable and accrued liabilities	64,339	121,538	185,877
Long-term debt:			
Due within one year	206,349	98,805	305,154
Due in more than one year	<u>363,844</u>	<u>3,651,275</u>	<u>4,015,119</u>
Total liabilities	<u>634,532</u>	<u>3,871,618</u>	<u>4,506,150</u>
Net assets			
Invested in capital assets, net of related debt	5,694,849	3,543,889	9,238,738
Restricted for:			
Debt service	240,114	-	240,114
Other purposes	219,487	-	219,487
Unrestricted	<u>1,849,088</u>	<u>87,877</u>	<u>1,936,965</u>
Total net assets	<u>\$ 8,003,538</u>	<u>\$ 3,631,766</u>	<u>\$ 11,635,304</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2004

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 449,860	\$ 2,961	\$ -	\$ -
Public safety	434,042	8,167	-	-
Public works	240,407	-	3,377	(1,525)
Highways and streets	159,845	-	185,573	-
Other governmental activities	634,547	127,309	-	-
Interest on long-term debt	31,471	-	-	-
Total governmental activities	<u>1,950,172</u>	<u>138,437</u>	<u>188,950</u>	<u>(1,525)</u>
Business-type activities:				
Parks	233,410	146,068	-	-
Sewer	1,882,112	448,503	-	-
Water	458,093	344,711	-	-
Total business-type activities	<u>2,573,615</u>	<u>939,282</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,523,787</u>	<u>\$ 1,077,719</u>	<u>\$ 188,950</u>	<u>\$ (1,525)</u>

continued...

CITY OF BRIDGMAN, MICHIGAN

Statement of Activities (Concluded)

For the Year Ended June 30, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net assets			
Net expense	<u>\$ (1,624,310)</u>	<u>\$ (1,634,333)</u>	<u>\$ (3,258,643)</u>
General revenues:			
Property taxes	1,415,100	-	1,415,100
Grants and contributions not restricted to specific programs	332,077	3,569	335,646
Unrestricted investment earnings	21,104	2,637	23,741
Transfers - internal activities	<u>(207,000)</u>	<u>207,000</u>	<u>-</u>
Total general revenues and transfers	<u>1,561,281</u>	<u>213,206</u>	<u>1,774,487</u>
Change in net assets	(63,029)	(1,421,127)	(1,484,156)
Net assets, beginning of year	<u>8,066,567</u>	<u>5,052,893</u>	<u>13,119,460</u>
Net assets, end of year	<u><u>\$ 8,003,538</u></u>	<u><u>\$ 3,631,766</u></u>	<u><u>\$ 11,635,304</u></u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CITY OF BRIDGMAN, MICHIGAN
Balance Sheet
Governmental Funds
June 30, 2004

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Public Improvement</u>	<u>General Debt Service</u>	<u>Building Authority</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>							
Assets							
Cash and cash equivalents	\$1,392,392	\$151,005	\$ 35,227	\$ 2,935	\$305,142	\$112,803	\$ 1,999,504
Special assessments receivable	23,132	-	-	82,232	17,696	-	123,060
Due from other governments	73,887	22,780	7,584	-	-	-	104,251
Due from other funds	1,761,728	214,088	120,460	209,446	86,875	268,524	2,661,121
Prepaid items	6,158	781	344	-	-	-	7,283
<u>TOTAL ASSETS</u>	<u>\$3,257,297</u>	<u>\$388,654</u>	<u>\$163,615</u>	<u>\$ 294,613</u>	<u>\$409,713</u>	<u>\$381,327</u>	<u>\$ 4,895,219</u>
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities							
Accounts payable	\$ 24,368	\$ 390	\$ 222	\$ -	\$ -	\$ -	\$ 24,980
Accrued liabilities	24,087	726	536	-	-	-	25,349
Due to other funds	2,022,072	293,214	140,857	109,218	274,667	258,563	3,098,591
Deferred revenue	23,132	-	-	82,232	17,696	-	123,060
Total liabilities	<u>2,093,659</u>	<u>294,330</u>	<u>141,615</u>	<u>191,450</u>	<u>292,363</u>	<u>258,563</u>	<u>3,271,980</u>
Fund balances:							
Reserved for prepaid items	6,158	781	344	-	-	-	7,283
Unreserved:							
Designated for subsequent expenditures	252,000	-	-	-	-	-	252,000
Undesignated	905,480	93,543	21,656	103,163	117,350	122,764	1,363,956
Total fund balances	<u>1,163,638</u>	<u>94,324</u>	<u>22,000</u>	<u>103,163</u>	<u>117,350</u>	<u>122,764</u>	<u>1,623,239</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$3,257,297</u>	<u>\$388,654</u>	<u>\$163,615</u>	<u>\$ 294,613</u>	<u>\$409,713</u>	<u>\$381,327</u>	<u>\$ 4,895,219</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2004

Fund balances - total governmental funds	\$ 1,623,239
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	14,459,527
Deduct: accumulated depreciation	(8,817,139)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred special assessments	123,060
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	1,163,516
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(510,000)
Deduct: accrued interest on bonds payable	(4,558)
Deduct: compensated absences	(34,107)

Net assets of governmental activities	<u>\$ 8,003,538</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	General	Major Streets	Local Streets	Public Improvement	General Debt Service	Building Authority	Total Governmental Funds
Revenues							
Property taxes	\$1,415,100	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,415,100
Special assessments	-	-	-	2,245	81,589	-	83,834
Intergovernmental	279,512	137,245	48,328	-	-	-	465,085
Charges for services	3,590	-	-	-	-	-	3,590
Investment earnings	10,076	1,015	439	(218)	2,570	1,339	15,221
Licenses and permits	40,055	-	-	-	-	-	40,055
Fines and forfeitures	7,538	-	-	-	-	-	7,538
Rent	-	-	-	-	-	127,309	127,309
Other	1,410	-	-	3,377	-	-	4,787
Total revenues	1,757,281	138,260	48,767	5,404	84,159	128,648	2,162,519
Expenditures							
Current:							
General government	335,222	-	-	-	-	-	335,222
Public safety	465,428	-	-	-	-	-	465,428
Public works	202,315	-	-	-	-	-	202,315
Highways and streets	-	89,669	70,176	-	-	-	159,845
Other	382,888	-	-	64,720	-	-	447,608
Debt service:							
Principal	-	-	-	-	110,000	105,000	215,000
Interest and fiscal charges	-	-	-	-	7,290	23,648	30,938
Total expenditures	1,385,853	89,669	70,176	64,720	117,290	128,648	1,856,356
Revenues over (under) expenditures	371,428	48,591	(21,409)	(59,316)	(33,131)	-	306,163
Other financing sources (uses)							
Transfers in	-	-	25,000	60,000	-	-	85,000
Transfers out	(292,000)	-	-	-	-	-	(292,000)
Total other financing sources (uses)	(292,000)	-	25,000	60,000	-	-	(207,000)
Net change in fund balances	79,428	48,591	3,591	684	(33,131)	-	99,163
Fund balances, beginning of year	1,084,210	45,733	18,409	102,479	150,481	122,764	1,524,076
Fund balances, end of year	\$1,163,638	\$ 94,324	\$ 22,000	\$ 103,163	\$ 117,350	\$ 122,764	\$ 1,623,239

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2004

Net change in fund balances - total governmental funds	\$ 99,163
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Deduct: depreciation expense	(292,200)
Deduct: loss on sale of capital assets	(76,659)
Governmental funds record revenue from special assessments as they are collected. However, in the statement of activities, special assessments are recognized as revenue in the year levied.	
Deduct: current year collections on deferred special assessments	(85,359)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Add: principal payments on long-term liabilities	215,000
An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.	
Add: interest revenue from governmental internal service fund	5,883
Deduct: interest expense from governmental internal service fund	(2,348)
Add: net operating income from governmental activities in the internal service fund	52,476
Add: gain on disposal of capital assets	11,100
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add: decrease in accrued interest payable on bonds	1,815
Add: decrease in the accrual for compensated absences	8,100
Change in net assets of governmental activities	<u>\$ (63,029)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Property taxes	\$ 1,254,000	\$ 1,254,000	\$ 1,415,100	\$ 161,100
Intergovernmental	226,700	226,700	279,512	52,812
Charges for services	1,300	1,300	3,590	2,290
Investment earnings	3,000	3,000	10,076	7,076
Licenses and permits	34,500	34,500	40,055	5,555
Fines and forfeitures	4,500	4,500	7,538	3,038
Other	100	100	1,410	1,310
Total revenues	1,524,100	1,524,100	1,757,281	233,181
Expenditures				
General government:				
City Commission	27,900	27,900	28,839	939
Superintendent	85,700	85,700	85,016	(684)
Elections	3,300	3,300	3,665	365
Assessor	21,900	21,900	20,025	(1,875)
General office	120,800	120,800	104,618	(16,182)
Building and grounds	49,800	49,800	60,603	10,803
Planning commission	30,700	30,700	22,635	(8,065)
Zoning administrator	13,400	13,400	9,821	(3,579)
Total general government	353,500	353,500	335,222	(18,278)
Public safety:				
Police	306,900	306,900	295,136	(11,764)
Fire	143,600	143,600	144,100	500
Building inspector	21,600	21,600	26,192	4,592
Total public safety	472,100	472,100	465,428	(6,672)
Public works	216,800	216,800	202,315	(14,485)
Other - general administration	389,000	389,000	382,888	(6,112)
Total expenditures	1,431,400	1,431,400	1,385,853	(45,547)
Revenues over expenditures	92,700	92,700	371,428	278,728

continued...

CITY OF BRIDGMAN, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Concluded)
General Fund
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses)				
Transfers out	<u>\$ (419,100)</u>	<u>\$ (419,100)</u>	<u>\$ (292,000)</u>	<u>\$ (127,100)</u>
Net change in fund balance	(326,400)	(326,400)	79,428	405,828
Fund balance, beginning of year	<u>1,084,210</u>	<u>1,084,210</u>	<u>1,084,210</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 757,810</u></u>	<u><u>\$ 757,810</u></u>	<u><u>\$ 1,163,638</u></u>	<u><u>\$ 405,828</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Major Streets
For the Year Ended June 30, 2004

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 124,000	\$ 124,000	\$ 137,245	\$ 13,245
Investment earnings	2,000	2,000	1,015	(985)
Total revenues	<u>126,000</u>	<u>126,000</u>	<u>138,260</u>	<u>12,260</u>
Expenditures				
Highways and streets:				
Routine maintenance	49,900	49,900	45,957	(3,943)
Traffic services	5,900	5,900	9,007	3,107
Winter services	30,800	30,800	34,705	3,905
Total expenditures	<u>86,600</u>	<u>86,600</u>	<u>89,669</u>	<u>3,069</u>
Net change in fund balance	<u>39,400</u>	<u>39,400</u>	<u>48,591</u>	<u>9,191</u>
Fund balance, beginning of year	<u>45,733</u>	<u>45,733</u>	<u>45,733</u>	<u>-</u>
Fund balance, end of year	<u>\$ 85,133</u>	<u>\$ 85,133</u>	<u>\$ 94,324</u>	<u>\$ 9,191</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Local Streets
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Intergovernmental	\$ 40,000	\$ 40,000	\$ 48,328	\$ 8,328
Investment earnings	2,500	2,500	439	(2,061)
Total revenues	42,500	42,500	48,767	6,267
Expenditures				
Highways and streets:				
Routine maintenance	51,300	51,300	45,305	(5,995)
Traffic services	4,100	4,100	1,971	(2,129)
Winter services	22,600	22,600	22,900	300
Total expenditures	78,000	78,000	70,176	(7,824)
Revenues (under) expenditures	(35,500)	(35,500)	(21,409)	14,091
Other financing sources				
Transfers in	36,300	36,300	25,000	(11,300)
Net change in fund balance	800	800	3,591	2,791
Fund balance, beginning of year	18,409	18,409	18,409	-
Fund balance, end of year	\$ 19,209	\$ 19,209	\$ 22,000	\$ 2,791

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Public Improvement
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 11,000	\$ 11,000	\$ 2,245	\$ (8,755)
Investment earnings	<u>1,500</u>	<u>1,500</u>	<u>(218)</u>	<u>(1,718)</u>
Total revenues	12,500	12,500	5,404	(7,096)
Expenditures				
Other - public improvement	<u>69,000</u>	<u>69,000</u>	<u>64,720</u>	<u>(4,280)</u>
Revenues over (under) expenditures	(56,500)	(56,500)	(59,316)	(2,816)
Other financing sources				
Transfers in	<u>90,000</u>	<u>90,000</u>	<u>60,000</u>	<u>(30,000)</u>
Net change in fund balance	33,500	33,500	684	(32,816)
Fund balance, beginning of year	<u>102,479</u>	<u>102,479</u>	<u>102,479</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 135,979</u></u>	<u><u>\$ 135,979</u></u>	<u><u>\$ 103,163</u></u>	<u><u>\$ (32,816)</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN

Statement of Net Assets

Proprietary Funds

June 30, 2004

	<u>Business-type Activities - Enterprise Funds</u>				<u>Governmental Activities</u>
	<u>Parks</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Vehicle and Equipment Internal Service Fund</u>
Assets					
Current assets:					
Cash and cash equivalents	\$ 260,748	\$ 63,165	\$ 163,298	\$ 487,211	\$ 443,385
Accounts receivable - customers	-	73,079	46,393	119,472	-
Due from other funds	545,443	157,740	385,985	1,089,168	1,078,260
Inventories	-	-	13,461	13,461	-
Prepaid items	993	965	2,492	4,450	737
Total current assets	<u>807,184</u>	<u>294,949</u>	<u>611,629</u>	<u>1,713,762</u>	<u>1,522,382</u>
Noncurrent assets:					
Capital assets - net	700,453	1,224,791	2,028,645	3,953,889	588,547
Investment in Galien River Sanitary District	-	2,483,737	-	2,483,737	-
Other assets - unamortized discount	-	130,449	39,630	170,079	-
Total noncurrent assets	<u>700,453</u>	<u>3,838,977</u>	<u>2,068,275</u>	<u>6,607,705</u>	<u>588,547</u>
Total assets	<u>1,507,637</u>	<u>4,133,926</u>	<u>2,679,904</u>	<u>8,321,467</u>	<u>2,110,929</u>
Liabilities					
Current liabilities:					
Accounts payable	3,808	30,745	14,672	49,225	8,168
Accrued liabilities	6,981	56,723	7,194	70,898	1,284
Due to other funds	607,361	131,501	140,003	878,865	851,093
Deposits payable	1,100	145	170	1,415	-
Compensated absences, current portion	2,017	-	1,788	3,805	-
Bonds and notes payable, current portion	-	-	95,000	95,000	13,840
Total current liabilities	<u>621,267</u>	<u>219,114</u>	<u>258,827</u>	<u>1,099,208</u>	<u>874,385</u>
Noncurrent liabilities:					
Compensated absences, net of current portion	5,983	-	5,302	11,285	-
Bonds and notes payable, net of current portion	-	3,324,990	315,000	3,639,990	12,246
Total noncurrent liabilities	<u>5,983</u>	<u>3,324,990</u>	<u>320,302</u>	<u>3,651,275</u>	<u>12,246</u>
Total liabilities	<u>627,250</u>	<u>3,544,104</u>	<u>579,129</u>	<u>4,750,483</u>	<u>886,631</u>
Net Assets					
Investment in capital assets, net of related debt	700,453	1,224,791	1,618,645	3,543,889	562,461
Unrestricted (deficit)	179,934	(634,969)	482,130	27,095	661,837
Total net assets	<u>\$ 880,387</u>	<u>\$ 589,822</u>	<u>\$ 2,100,775</u>	<u>\$ 3,570,984</u>	<u>\$ 1,224,298</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Reconciliation of Net Assets on the Statement of
Net Assets for Enterprise Funds to Net Assets of
Business-type Activities on the Statement of Net Assets
June 30, 2004

Net assets - enterprise funds	\$ 3,570,984
-------------------------------	--------------

Amounts reported for business-type activities in the statement of net assets are different because:

An internal service fund is used by management to charge the costs of certain equipment usage to individual enterprise funds. The portion of the net assets of the internal service fund attributable to these charges are included in business-type activities in the statement of net assets.

Add: net assets of business-type activities accounted for in the internal service fund	<u>60,782</u>
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Net assets of business-type activities	<u>\$ 3,631,766</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN

Statement of Revenues, Expenses

and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds				Governmental Activities Vehicle and Equipment Internal Service Fund
	Parks	Sewer	Water	Total	
Operating revenues					
Charges for services	\$ 137,543	\$ 448,503	\$ 297,211	\$ 883,257	\$ 282,880
Rent	8,525	-	47,500	56,025	-
Other	3,569	-	-	3,569	4,073
Total operating revenues	149,637	448,503	344,711	942,851	286,953
Operating expenses					
Operations	173,187	294,483	351,222	818,892	124,665
Depreciation	64,213	43,190	74,275	181,678	101,526
Total operating expenses	237,400	337,673	425,497	1,000,570	226,191
Operating income (loss)	(87,763)	110,830	(80,786)	(57,719)	60,762
Non-operating revenues (expenses)					
Investment income	750	454	1,433	2,637	5,883
Gain on disposal of capital assets	-	-	-	-	11,100
Interest expense	-	(113,970)	(36,892)	(150,862)	(2,348)
Total non-operating revenues (expenses)	750	(113,516)	(35,459)	(148,225)	14,635
Income (loss) before transfers	(87,013)	(2,686)	(116,245)	(205,944)	75,397
Transfers in	87,000	-	120,000	207,000	-
Special item - Galien River Sanitary District buy-in	-	(1,430,469)	-	(1,430,469)	-
Change in net assets	(13)	(1,433,155)	3,755	(1,429,413)	75,397
Net assets, beginning of year	880,400	2,022,977	2,097,020	5,000,397	1,148,901
Net assets, end of year	\$ 880,387	\$ 589,822	\$ 2,100,775	\$ 3,570,984	\$ 1,224,298

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Reconciliation of the Statement of Revenues, Expenses
and Changes in Fund Net Assets of Proprietary Funds
to the Statement of Activities
For the Year Ended June 30, 2004

Net change in net assets - total enterprise funds	\$ (1,429,413)
---	----------------

Amounts reported for *business-type activities* in the statement of activities are different because:

An internal service fund is used by management to charge the costs of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with business-type activities.

Add: net operating income from business-type activities in the internal service fund	<u>8,286</u>
--	--------------

Change in net assets of business-type activities	<u>\$ (1,421,127)</u>
--	-----------------------

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds				Governmental Activities Vehicle and Equipment Internal Service Fund
	Parks	Sewer	Water	Total	
Cash flows from operating activities					
Cash received from customers and others	\$ 167,227	\$ 426,190	\$ 343,922	\$ 937,339	\$ 4,073
Cash received from interfund services	-	-	-	-	282,880
Cash payments to employees	(72,011)	(41,652)	(113,863)	(227,526)	(34,148)
Cash payments to suppliers for goods and services	(168,828)	(125,265)	(357,926)	(652,019)	(401,258)
Cash payments for interfund services	(18,575)	-	(20,000)	(38,575)	-
Net cash provided (used) by operating activities	(92,187)	259,273	(147,867)	19,219	(148,453)
Cash flows from investing activities					
Investment income	750	454	1,433	2,637	5,883
Cash flows from capital and related financing activities					
Purchase of capital assets	(8,198)	-	(31,693)	(39,891)	(126,455)
Payments into Galien River Sanitary District	-	(3,429,873)	-	(3,429,873)	-
Proceeds from sale of capital assets	-	-	-	-	11,100
Bond/note principal payments	-	(30,000)	(95,000)	(125,000)	(28,918)
Bond/note interest payments	-	(108,752)	(25,897)	(134,649)	(2,348)
Proceeds from debt issuance	-	3,324,990	-	3,324,990	-
Net cash provided (used) by capital and related financing activities	(8,198)	(243,635)	(152,590)	(404,423)	(146,621)
Cash flows from non-capital financing activities					
Transfer from other fund	87,000	-	120,000	207,000	-
Net increase (decrease) in cash and cash equivalents	(12,635)	16,092	(179,024)	(175,567)	(289,191)
Cash and cash equivalents, beginning of year	273,383	47,073	342,322	662,778	732,576
Cash and cash equivalents, end of year	\$ 260,748	\$ 63,165	\$ 163,298	\$ 487,211	\$ 443,385

Continued...

CITY OF BRIDGMAN, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended June 30, 2004

	<u>Business-type Activities - Enterprise Funds</u>				<u>Governmental Activities</u>
	<u>Parks</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Vehicle and Equipment Internal Service Fund</u>
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ (87,763)	\$ 110,830	\$ (80,786)	\$ (57,719)	\$ 60,762
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	64,213	43,190	74,275	181,678	101,526
Changes in assets and liabilities:					
Accounts receivable - customers	-	(22,458)	(959)	(23,417)	-
Due from other funds	(105,911)	(28,357)	(195,113)	(329,381)	(312,577)
Due from other governments	17,390	-	-	17,390	-
Inventories	-	-	8,221	8,221	-
Prepaid items	(176)	(965)	(858)	(1,999)	(737)
Accounts payable	407	8,204	11,125	19,736	1,619
Accrued liabilities	196	55,377	1,669	57,242	(246)
Due to other funds	18,831	93,307	35,220	147,358	1,200
Deposits payable	200	145	170	515	-
Accrued compensated absences	426	-	(831)	(405)	-
Net cash provided (used) by operating activities	<u>\$ (92,187)</u>	<u>\$ 259,273</u>	<u>\$ (147,867)</u>	<u>\$ 19,219</u>	<u>\$ (148,453)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN

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Notes to the Financial Statements

For the Year Ended June 30, 2004

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CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Bridgman, Michigan is a municipal corporation governed by a seven-member council and administered by an appointed city superintendent. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

Blended component unit:

The Building Authority is governed by a three-member board appointed by the City Commission. Its sole function is to oversee the financing and construction, if any, of the City's public buildings; therefore, it is reported as if it were part of the primary government.

Discretely presented component unit:

The City's Brownfield Authority was created to revitalize selected environmentally distressed areas within the City limits. The Authority had no assets as of June 30, 2004, and no activity for the period then ended.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Intergovernmental revenues are accrued when earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *major streets fund* accounts for the use of motor fuel taxes which are earmarked by State statute for major street and highway purposes.

The *local streets fund* accounts for the use of motor fuel taxes which are earmarked by State statute for local street and highway purposes.

The *public improvement fund* accounts for City-wide improvement projects.

The *general debt-service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

The *building authority fund* accounts for the debt service on bonds issued to finance the construction of City buildings, and the rental income collected from City departments to service that debt.

The City reports the following major proprietary funds:

The *parks fund* accounts for the operation and maintenance of the City's parks and recreational facilities.

The *sewer fund* accounts for the City's participation in the Galien River Sanitary District.

The *water fund* accounts for the activities of the City's water distribution and treatment system.

Additionally, the City reports the following fund types:

The *internal service fund* accounts for fleet and equipment management to other departments on a cost reimbursement basis.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, liabilities and equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorizes the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The City's investments during the year consisted solely of bank investment pools. The bank investment pools are regulated by the Michigan Banking Act and the fair value of the position in the pool is the same as the value of the pooled shares.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

2. Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30
Public domain infrastructure	50
System infrastructure	50
Vehicles	3-20
Equipment	5-10

5. *Compensated absences*

It is the City's policy to not permit employees to accumulate unused vacation from year to year. Any vacation that is not used within the year following the year within which it was earned is considered lapsed. Non-lapsed vacation time and 1/3 of sick leave accumulated prior to June 30, 1999 are accrued in the government-wide and proprietary fund financial statements. The City does not permit accrual of sick leave earned after June 30, 1999. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

6. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are externally imposed by creditors, grantors, contributors or laws or regulations of other governments. Designations of fund balance represent tentative management plans that are subject to change. In the government-wide financial statements, net assets reported as "restricted" are subject to externally imposed restrictions by laws and regulations or grantors.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

On or before the third Monday in May of each year, the City Superintendent must present the proposed budget to the City Commission for review. The Commission holds public hearings and a final budget must be prepared and adopted no later than the third Monday in June.

The appropriated budget is prepared by fund and department. The City Superintendent may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Commission. The legal level of budgetary control is the department level. Certain supplemental budgetary appropriations were made during the year which were not considered material.

B. Excess of expenditures over appropriations

For the year ended June 30, 2004, expenditures exceeded appropriations in the following General Fund Departments: City Commission \$939, Elections \$365, Building and Grounds \$10,803, Fire \$500, and Building Inspector \$4,592.

The Major Streets Special Revenue Fund exceeded appropriations by \$3,107 in the Traffic Services Department and \$3,905 in the Winter Services Department.

The Local Streets Special Revenue Fund exceeded appropriations by \$300 in the Winter Services Department.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

At year end, the carrying amount of deposits for the City was \$2,628,799. The bank balance was \$2,687,841, of which \$200,000 was insured by federal depository insurance. The remaining balance of \$2,487,841 was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the City's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were as follows:

	Carrying Amount (Fair Value)
Mutual and cash management funds (uncategorized as to risk)	<u>\$ 300,901</u>

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

A reconciliation of cash and investments as shown on the Statement of Net Assets follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 2,628,799
Investments in mutual and cash management funds	300,901
Cash on hand	<u>400</u>
Statement of Net Assets	<u>\$ 2,930,100</u>

B. Receivables

Receivables in the governmental activities are approximately 47 percent due from other governments and 53 percent special assessments receivable. None of the City's special assessments receivable are due within one year. Business-type activities receivables are 100% due from customers.

Government funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Deferred Revenue</u>
Special assessments:	
General fund	\$ 23,132
Debt service fund	17,696
Public improvement	<u>82,232</u>
	<u>\$ 123,060</u>

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2004, was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated – Land	\$ 144,600	\$ -	\$ 10,000	\$ 134,600
Capital assets being depreciated:				
Buildings	1,830,400	-	200,000	1,630,400
Equipment	1,782,515	126,455	60,281	1,848,689
Infrastructure	12,664,372	-	-	12,664,372
Total capital assets being depreciated	16,277,287	126,455	260,281	16,143,461
Less accumulated depreciation for:				
Buildings	907,306	37,522	133,340	811,488
Equipment	1,194,760	104,546	60,281	1,239,025
Infrastructure	7,744,955	251,658	-	7,996,613
Total accumulated depreciation	9,847,021	393,726	193,621	10,047,126
Total capital assets being depreciated, net	6,430,266	(267,271)	66,660	6,096,335
Governmental activities capital assets, net	\$ 6,574,866	\$ (267,271)	\$ 76,660	\$ 6,230,935
Business-type activities				
Capital assets not being depreciated – Land	\$ 59,293	\$ -	\$ -	\$ 59,293
Capital assets being depreciated:				
Buildings and systems	6,954,598	39,890	-	6,994,488
Equipment	391,338	-	-	391,338
Total capital assets being depreciated	7,345,936	39,890	-	7,385,826
Less accumulated depreciation for:				
Buildings and systems	2,932,479	175,281	-	3,107,760
Equipment	377,073	6,397	-	383,470
Total accumulated depreciation	3,309,552	181,678	-	3,491,230
Total capital assets being depreciated, net	4,036,384	(141,788)	-	3,894,596
Business-type activities capital assets, net	\$ 4,095,677	\$ (141,788)	\$ -	\$ 3,953,889

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 38,222
Public safety	938
Public works	1,381
Other governmental activities	251,659
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>101,526</u>

Total depreciation expense – governmental activities **\$ 393,726**

Business-type activities:

Parks	\$ 64,213
Sewer	43,190
Water	<u>74,275</u>

Total depreciation expense – business-type activities **\$ 181,678**

D. Accounts payable and accrued liabilities

Payables in the governmental activities are 43% due to vendors, 48% accrued wages, and 9% accrued interest payable. Payables in the business-type activities are 74% due to vendors, and 26% customer deposits, accrued wages, and accrued interest payable.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

E. Interfund receivables, payables and transfers

The composition of interfund balances as of June 30, 2004, is as follows:

Due To:	Due From										Total
	General Fund	Major Streets	Local Streets	Public Improvement	General Debt Service	Building Authority	Parks	Sewer	Water	Internal Service	
General Fund	\$ -	\$ 91,044	\$ 78	\$ 89,496	\$ 147,584	\$ 258,263	\$ 455,408	\$ 93,307	\$ 14,898	\$ 611,650	\$ 1,761,728
Major Streets	128,416	-	18,672	-	-	-	-	-	-	67,000	214,088
Local Streets	59,188	41,700	-	19,572	-	-	-	-	-	-	120,460
Public Improvement	129,771	19,572	-	-	-	150	59,953	-	-	-	209,446
General Debt Service	86,875	-	-	-	-	-	-	-	-	-	86,875
Building Authority	268,374	-	-	150	-	-	-	-	-	-	268,524
Parks	276,946	898	707	-	127,083	150	-	38,194	26,896	74,569	545,443
Sewer	45,657	-	-	-	-	-	-	-	14,209	97,874	157,740
Water	385,985	-	-	-	-	-	-	-	-	-	385,985
Internal Service	640,860	140,000	121,400	-	-	-	92,000	-	84,000	-	1,078,260
Total	\$ 2,022,072	\$ 293,214	\$ 140,857	\$ 109,218	\$ 274,667	\$ 258,563	\$ 607,361	\$ 131,501	\$ 140,003	\$ 851,093	\$ 4,828,549

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. In addition, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund.

For the year ended June 30, 2004, interfund transfers consisted of the following:

Transfers In

<u>Transfer Out</u>	<u>Local Street Fund</u>	<u>Public Improvement Fund</u>	<u>Debt Service Fund</u>	<u>Park Fund</u>	<u>Water Fund</u>	<u>Total</u>
General Fund	<u>\$ 25,000</u>	<u>\$ 60,000</u>	<u>\$ _____</u>	<u>\$ 87,000</u>	<u>\$120,000</u>	<u>\$ 292,000</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

F. Long-term debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. The original amount of general obligation bonds issued in prior years was \$1,445,000. No general obligation bonds were issued during the current year.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are issued as 10-20 year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Due</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities:				
1995 limited tax general obligation	2005	\$25,000 - \$35,000	4.7-7.0%	\$ 35,000
1997 building authority	2007	\$10,000 - \$175,000	4.2-4.75%	450,000
				<u>\$ 485,000</u>
Business-type activities:				
2003 GRSD Authority General Obligation Limited Tax Bonds	2029	\$94,530 - \$219,885	2.00-4.70%	<u>\$ 3,324,990</u>

Special Assessment Debt

The City issues special assessment debt to provide funds for the construction of streets, water and sewer mains and sidewalks. These bonds will be repaid 60% from amounts levied against the property owners benefited by the construction. The remaining 40% is provided from the City's general resources. The original amount of special assessment bonds issued in prior years was \$500,000. No special assessment bonds were issued during the current year. Special assessment bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Due</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities:				
1995 special assessment bonds	2005	\$25,000	4.7-7.0%	<u>\$ 25,000</u>

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

Installment Purchase Contracts

The City enters into installment purchase agreements to finance the acquisition of certain equipment. The original amount of the agreements entered into in prior years for the contracts listed below was \$206,483. Installment purchase contracts outstanding at year end are as follows:

<u>Purpose</u>	<u>Due</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Amount</u>
Government activities:				
1996 Equipment Purchase	2006	\$10,500	5.0%	\$ 21,000
2002 Copier	2005	\$3,596	6.0%	<u>5,086</u>
				<u>\$ 26,086</u>

Revenue Bonds

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years for the three bonds listed below was \$1,185,000. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Due</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities:				
1993 Water Supply System	2008	\$10,000-\$45,000	4.50-6.00%	\$ 85,000
1996 Water Supply System	2008	\$65,000-\$90,000	3.85-5.10%	<u>325,000</u>
				<u>\$ 410,000</u>

Debt service requirements to maturity for all installment debt of the City are as follows:

<u>Year Ended June 30</u>	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 188,840	\$ 21,329	\$ 210,169	\$ 95,000	\$ 156,682	\$ 251,682
2006	172,246	12,642	184,888	100,000	151,942	251,942
2007	175,000	4,156	179,156	199,530	145,987	345,517
2008	-	-	-	206,585	138,193	344,778
2009	-	-	-	100,695	129,155	229,850
2010-2014	-	-	-	554,850	591,999	1,146,849
2015-2019	-	-	-	661,710	478,712	1,140,422
2020-2024	-	-	-	807,615	328,465	1,136,080
2025-2029	-	-	-	1,009,005	122,619	1,131,624
	<u>\$ 536,086</u>	<u>\$ 38,127</u>	<u>\$ 574,213</u>	<u>\$ 3,734,990</u>	<u>\$ 2,243,754</u>	<u>\$ 5,978,744</u>

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

Changes in Long-term Liabilities

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Bonds	\$ 625,000	\$ -	\$ (140,000)	\$ 485,000	\$ 150,000
Special Assessment Debt with City commitment	100,000	-	(75,000)	25,000	25,000
Installment Purchase Contracts	55,004	-	(28,918)	26,086	13,840
Compensated Absences	42,207	19,969	(28,069)	34,107	17,509
Government activity long-term liabilities	\$ 822,211	\$ 19,969	\$ (271,987)	\$ 570,193	\$ 206,349
Business-type activities:					
Revenue Bonds	\$ 535,000	\$ -	\$ (125,000)	\$ 410,000	\$ 95,000
General Obligation Limited Tax Bonds	-	3,324,990	-	3,324,990	-
Compensated Absences	15,495	7,748	(8,153)	15,090	3,805
Business-type activity long-term liabilities	\$ 550,495	\$ 3,332,738	\$ (133,153)	\$3,750,080	\$ 98,805

The internal service fund predominantly serves the governmental funds. Accordingly, long-term liabilities for it are included as part of the above totals for governmental activities. Also, for the governmental activities, compensated absences are generally liquidated by the general fund.

G. Segment information--enterprise funds

The government issued revenue bonds to finance certain improvements to its water and sewer systems. Because the Parks Fund, Water Fund and the Sewer Fund are each reported as major funds in the fund financial statements and account entirely for a specific segment, disclosures are not required herein.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2004, the City carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

B. Property taxes

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Berrien County.

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for the 2003 levy were assessed and equalized at \$92,559,096 (not including properties subject to Industrial Facilities Tax exemption), representing 42.2% of estimated current market value. The City's general operating tax rate for fiscal year 2003-04 was 15.0156 mills.

C. Defined contribution pension plan

In 1996, the City began providing pension benefits to all of its full-time employees through the City of Bridgman Defined Contribution Pension Plan. Plan provisions and contribution requirements are established by, and may be amended by, the City Commission. The Commission has contracted with a third-party administrator to perform the daily administration of the Plan.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after 1,000 hours of service. As established by the City Commission, the City contributes 3.0 percent of employees' gross earnings. The City also contributes an additional amount ranging from 0 to 4 percent of an employee's gross earnings based on longevity. The City's contributions for each employee (plus interest allocated to the employee's account) are fully vested immediately. There are no employee contributions.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

The City's total payroll during the current year was \$714,057. The current year contribution was calculated based on covered payroll of \$536,680 resulting in an employer contribution of \$32,713.

D. Construction code fees

The City oversees building construction, in accordance with the State's construction code act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since July 1, 2002 is as follows:

Building permit revenue	\$ 25,525
Related expenses:	
Building inspector	<u>(27,006)</u>
Shortfall	<u>\$ (1,481)</u>

E. Investment in the Galien River Sanitary District

The Galien River Sanitary District Sewer Authority (the "Authority") is a legally separate entity, created through a joint venture by area governments in Berrien County, Michigan. The City of Bridgman has been a customer of the Authority for many years, purchasing wastewater treatment services on a unit cost basis. In 2004, the City became a constituent member (owner) of the Authority. In connection with this transaction, a one-time buy-in charge of \$1,430,469 was recorded as a Special Item in the Proprietary Statement of Revenues, Expenses and Changes in Fund Net Assets.

Participating municipalities and their respective shares of ownership are as follows:

	Percent Of <u>Ownership</u>
Chikaming Township	28.6%
New Buffalo City	21.6%
New Buffalo Township	16.6%
Lake Charter Township	16.6%
Bridgman City	<u>16.6%</u>
	<u>100.0%</u>

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

The City of Bridgman is accounting for its investment in the Authority as a joint venture in accordance with GASB Statement 14. Information presented below is taken from financial statements of the Authority for the year ended December 31, 2003, audited by other auditors, whose report dated May 18, 2004, expressed an unqualified opinion on those statements.

Summary information of the city of Bridgman's investment in the Authority for the year ended June 30, 2004, is as follows:

	<u>Total GRSD Authority</u>	<u>City of Bridgman 16.6%</u>
Total assets	\$ 15,033,312	\$ 2,495,530
Total liabilities	<u>71,043</u>	<u>11,793</u>
Net assets	<u>\$14,962,269</u>	<u>\$ 2,483,737</u>
Operating revenues	\$ 1,062,538	\$ 176,381
Operating expenses	<u>1,220,898</u>	<u>202,669</u>
Operating loss	(158,360)	(26,288)
Other income and expenses	39,821	6,610
Capital contributions	<u>10,920,161</u>	<u>1,812,748</u>
Change in net assets	10,801,622	1,793,070
Net assets, beginning of year	<u>4,160,647</u>	<u>690,667</u>
Net assets, end of year	<u>\$14,962,269</u>	<u>\$ 2,483,737</u>

Complete financial statements for the Galien River Sanitary District Sewer Authority may be obtained at the Authority's administrative office.

Galien River Sanitary District Sewer Authority
10831 Kruger Road
New Buffalo MI 49117

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SUPPLEMENTARY INFORMATION

CITY OF BRIDGMAN, MICHIGAN
Capital Assets Used in the Operation of Governmental Funds
Schedule by Source
June 30, 2004

Governmental funds capital assets:

Land	\$ 134,600
Buildings	1,630,400
Vehicles and equipment	30,155
Infrastructure	<u>12,664,372</u>
Total governmental funds capital assets	<u>\$ 14,459,527</u>

Investment in governmental funds capital assets by source

General fund	\$ 11,381,217
Special revenue funds	<u>3,078,310</u>
Total investment in governmental funds capital assets by source	<u>\$ 14,459,527</u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. The capital assets of the internal service fund are included as governmental activities in the statement of net assets.

CITY OF BRIDGMAN, MICHIGAN
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity
June 30, 2004

	Land	Buildings	Vehicles and Equipment	Infrastructure	Total
Public safety					
Police	\$ -	\$ 463,066	\$ -	\$ -	\$ 463,066
Fire	-	463,067	9,380	-	472,447
Total public safety	-	926,133	9,380	-	935,513
Public works	-	191,200	-	12,664,372	12,855,572
Other - general administration	134,600	513,067	20,775	-	668,442
Total governmental funds capital assets	\$ 134,600	\$ 1,630,400	\$ 30,155	\$ 12,664,372	\$ 14,459,527

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. The capital assets of the internal service fund are included as governmental activities in the statement of net assets.

CITY OF BRIDGMAN, MICHIGAN
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity
For the Year Ended June 30, 2004

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Public safety				
Police	\$ 463,066	\$ -	\$ -	\$ 463,066
Fire	472,447	-	-	472,447
Total public safety	935,513	-	-	935,513
Public works	12,855,572	-	-	12,855,572
Other - general administration	878,442	-	(210,000)	668,442
Total governmental funds capital assets	<u>\$ 14,660,025</u>	<u>\$ -</u>	<u>\$ (210,000)</u>	<u>\$ 14,459,527</u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. The capital assets of the internal service fund are included as governmental activities in the statement of net assets.

STATISTICAL SECTION

Table 1

CITY OF BRIDGMAN, MICHIGAN
General Governmental Revenues - Unaudited (1)
Last Ten Fiscal Years Ended June 30

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Property Taxes	\$ 1,415,100	\$ 1,372,011	\$ 1,329,086	\$ 1,278,877	\$ 1,265,619	\$ 1,206,717	\$ 1,112,781	\$ 1,021,185	\$ 947,880	\$ 885,196
Special Assessments (1)	83,834	73,750	103,602	97,821	164,590	136,925	198,496	188,761	192,466	226,115
Intergovernmental	465,085	419,101	267,777	281,597	252,342	251,827	205,166	268,388	225,146	223,073
Charges for Services	3,590	4,176	3,085	18,108	-	-	-	-	-	-
Rents(1)	127,309	125,080	51,000	51,000	51,000	58,104	19,800	19,800	19,800	19,800
Investment Earnings (1)	15,221	19,657	68,300	107,951	120,201	119,948	130,284	127,004	139,346	82,314
Licenses and Permits	40,055	37,655	35,694	32,232	44,067	29,945	31,378	41,715	47,414	29,464
Fines and forfeitures	7,538	6,674	7,988	6,429	13,826	8,243	7,847	7,068	4,815	6,958
Other	4,787	9,713	3,177	31,301	18,928	7,096	13,729	4,743	8,849	5,988
Total Revenues	\$ 2,162,519	\$ 2,067,817	\$ 1,869,709	\$ 1,905,316	\$ 1,930,573	\$ 1,818,805	\$ 1,719,481	\$ 1,678,664	\$ 1,585,716	\$ 1,478,908

General Governmental Expenditures By Function-Unaudited(1)
Last Ten Fiscal Years Ended June 30

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
General government	\$ 335,222	\$ 329,289	\$ 315,712	\$ 292,888	\$ 281,309	\$ 335,627	\$ 348,776	\$ 268,647	\$ 213,478	\$ 216,502
Public safety	465,428	437,047	420,153	396,703	399,638	362,378	341,247	322,788	333,973	311,924
Public works	202,315	171,973	194,506	158,742	153,665	295,799	230,760	180,104	161,883	171,744
Parks & Recreation (2)	-	-	-	-	-	-	4,001	3,915	1,590	2,906
Debt service (3)	245,938	257,218	346,690	305,346	354,293	410,049	396,199	357,444	344,508	221,898
General Administration (4)	607,453	587,532	669,244	318,481	314,654	80,677	72,829	70,793	73,025	71,593
Total Expenditures	\$ 1,856,356	\$ 1,783,059	\$ 1,946,305	\$ 1,472,160	\$ 1,503,559	\$ 1,484,530	\$ 1,393,812	\$ 1,203,691	\$ 1,128,457	\$ 996,567

(1) Includes general fund, debt service, public improvements and building authority.

(2) In FY 1999, the department of Parks and Recreation, formerly included in the General Fund, was transferred to the Parks Enterprise Fund.

(3) Includes principal and interest.

(4) In FY 2000, General Administration was reorganized to include all non-departmental expenses that had previously been expended in other cost centers. Some examples of these changes are street lighting, general liability insurance, attorneys fees, audit fees and sanitation expenses.

Table 2

CITY OF BRIDGMAN, MICHIGAN
Property Taxes Levied and Collected - Unaudited
Last Ten Fiscal Years

(1) Fiscal Year Ended June 30,	(2) Total Tax Levy	(3) Current Tax Collections	Percent of Current Taxes Collected
2004	\$ 1,338,578	\$ 1,338,578	100.0%
2003	1,372,011	1,372,011	100.0%
2002	1,329,086	1,329,086	100.0%
2001	1,278,877	1,278,877	100.0%
2000	1,265,619	1,265,619	100.0%
1999	1,206,717	1,206,717	100.0%
1998	1,112,781	1,112,781	100.0%
1997	1,021,185	1,021,185	100.0%
1996	947,880	947,880	100.0%
1995	885,196	885,196	100.0%

(1) Property taxes are levied July 1 of the current fiscal year based on taxable property values as of the preceding December 31. Unpaid property taxes roll over onto the winter tax bill with a 4% penalty. Therefore, taxes are not considered delinquent until March 1 of the following year. At that time, delinquent real property taxes are purchased by the Berrien County Delinquent Tax Revolving Fund. Uncollected personal property taxes are collected by the Berrien County Treasurer.

(2) Includes Industrial Facility Tax.

(3) Includes settlement from Berrien County Delinquent Tax Revolving.

Table 3

CITY OF BRIDGMAN, MICHIGAN
Assessed and Estimated Actual Value of Property - Unaudited (1)
Last Ten Fiscal Years

As of December 31, (2)	Real Property		Personal Property		Total		Ratio of Assessed to Estimated Actual Value
	Taxable Value	Estimated Actual Value	Taxable Value	Estimated Actual Value	Taxable Value	Estimated Actual Value	
2003	\$ 86,209,896	\$ 211,491,400	\$ 8,795,800	\$ 17,691,000	\$ 95,005,696	\$ 229,182,400	41.45%
2002	85,822,896	209,092,600	8,480,700	15,097,200	94,303,596	224,189,800	42.06%
2001	81,678,019	196,271,400	7,554,900	15,109,800	89,232,919	211,381,200	42.21%
2000	76,726,443	191,783,400	9,220,500	18,441,000	85,946,943	210,224,400	40.88%
1999	71,155,607	78,291,100	9,077,600	9,077,600	80,233,207	87,368,700	91.83%
1998	69,168,428	77,317,100	9,411,400	9,411,400	78,579,828	86,728,500	90.60%
1997	64,180,802	71,673,300	8,647,015	8,647,015	72,827,817	80,320,315	90.67%
1996	58,383,267	61,253,600	8,361,100	8,361,100	66,744,367	69,614,700	95.88%
1995	54,373,285	54,602,900	7,816,200	7,816,200	62,189,485	62,419,100	99.63%
1994 (3)	51,851,100	51,851,100	7,657,200	7,657,200	59,508,300	59,508,300	100.00%

(1) Includes Industrial Facilities Tax in total.

(2) Property taxes are levied July 1 of the succeeding fiscal year based on assessed values (taxable values beginning in 1994) as of December 31.

(3) In 1994, the voters of the State of Michigan voted to pass Proposal A which capped the taxable value of real property at that year's value subject to a yearly inflation factor. Should a property sell, the taxable value is then adjusted accordingly.

Table 4

CITY OF BRIDGMAN, MICHIGAN
Property Tax Rates - Unaudited
Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year Ended June 30,	City Operating Millage	City Library Operating	(1) Bridgman Public Schools	(1) State Education Tax	Berrien Intermediate School District	Lake Michigan College	County	Totals	
								Homestead	Non- Homestead
2004	14.9270	1.7376	8.8760	6.0000	2.3998	1.8174	5.6677	33.0495	41.4255
2003	15.0156	1.7480	9.3760	5.0000 (2)	2.4042	1.8209	5.6769	32.6656	41.0416
2002	15.1229	1.7509	8.3760	6.0000	2.4326	1.8481	5.7410	32.8955	41.2715
2001	15.1624	1.7555	8.3719	6.0000	2.4377	1.8492	5.7466	32.9514	41.3233
2000	15.2020	1.7601	8.3760	6.0000	2.4475	1.8560	5.7705	33.0361	41.4121
1999	15.2020	1.7601	8.3760	6.0000	2.4475	1.8560	5.7705	33.0361	41.4121
1998	15.2020	1.7601	8.3760	6.0000	2.4475	1.8560	5.7705	33.0361	41.4121
1997	15.2020	0.7601	8.3760	6.0000	2.4475	1.8560	5.7705	32.0361	40.4121
1996	15.2020	0.7601	8.3760	6.0000	2.4470	1.8560	5.6236	31.8887	40.2647
1995	15.2020	0.7601	8.3760	6.0000	2.4468	1.8560	5.6249	31.8898	40.2658

(1) Passage of Proposal A in 1994 decreased operating millage on homestead properties for Bridgman Public Schools to 6 mills.
 Non-homestead properties are subject both to the 6 mills (State Education Tax) and the voted levy.

(2) In 2003, the State Education Tax was lowered to 5 mills and was charged to taxpayers on their summer tax bills. The voted levy for Bridgman Public Schools was 9.376 mills.

Table 5

CITY OF BRIDGMAN, MICHIGAN
Revenue Bond Coverage - Unaudited
Water Revenue Bonds
Last Ten Fiscal Years

Fiscal Year Ended June 30,	(1) Gross Revenue	(2) Operating Expenses	Net Revenue Available for Debt Service	Total Debt Service Requirement	Coverage
2004	\$ 346,144	\$ 351,222	\$ (5,078)	\$ 120,795	(0.04)
2003	373,105	248,471	124,634	114,805	1.09
2002	319,650	240,938	78,712	112,880	0.70
2001	347,699	295,075	52,624	118,040	0.45
2000	369,281	196,341	172,940	115,525	1.50
1999	361,771	150,238	211,533	115,320	1.83
1998	339,212	128,860	210,352	114,680	1.83
1997	317,021	123,370	193,651	62,665	3.09
1996	320,445	119,513	200,932	125,325	1.60
1995	322,574	120,909	201,665	123,545	1.63

CITY OF BRIDGMAN, MICHIGAN
Revenue Bond Coverage - Unaudited
Sewer Revenue Bond
Last Ten Fiscal Years

Fiscal Year Ended June 30,	(1) Gross Revenue	(2) Operating Expenses	Net Revenue Available for Debt Service	Total Debt Service Requirement	Coverage
2004	\$ 448,503	\$ 294,483	\$ 154,020	\$ 84,157	1.83
2003	315,099	263,432	51,667	28,060	1.84
2002	294,587	250,951	43,636	29,560	1.48
2001	342,949	361,773	(18,824)	26,460	(0.71)
2000	315,194	318,143	(2,949)	27,850	(0.11)
1999	328,670	340,619	(11,949)	29,225	(0.41)
1998	323,848	345,686	(21,838)	25,420	(0.86)
1997	310,425	341,371	(30,946)	26,436	(1.17)
1996	314,183	285,137	29,046	27,445	1.06
1995	285,603	268,209	17,394	28,450	0.61

(1) Includes investment income.

(2) Excludes depreciation expense.

Table 6

CITY OF BRIDGMAN, MICHIGAN
Ratio of Net General Bonded Debt to Assessed Value
and Net Bonded Debt Per Capita - Unaudited
Last Ten Fiscal Years

Fiscal Year Ended June 30,	(1) Population	(2) Taxable Value	(3) Gross Bonded Debt	(4) Less Debt Service Fund Amounts	Net Bonded Debt	Ratio of Net Bonded Debt to Taxable Value	Net Bonded Debt per Capita
2004	2,428	\$95,005,696	\$ 485,000	\$ 320,475	\$ 164,525	0.17%	68
2003	2,428	94,303,596	625,000	273,245	351,755	0.37%	145
2002	2,428	89,232,919	755,000	278,786	476,214	0.53%	196
2001	2,428	85,946,943	910,000	287,126	622,874	0.72%	257
2000	2,428	80,233,207	1,020,000	121,864	898,136	1.12%	370
1999	2,140	78,579,828	1,140,000	120,289	1,019,711	1.30%	477
1998	2,140	72,827,817	1,260,000	107,939	1,152,061	1.58%	538
1997	2,140	66,744,367	665,000	1,156	663,844	0.99%	310
1996	2,140	62,189,485	740,000	19,305	720,695	1.16%	337
1995	2,140	59,508,300	550,000	19,768	530,232	0.89%	248
1994	2,140	51,266,700	590,000	16,106	573,894	1.12%	268

(1) U.S. Census

(2) From Table 3.

(3) Amounts do not include revenue or special assessment bonds

(4) Represents amounts available for repayment of general obligation bonds.

Table 7

CITY OF BRIDGMAN, MICHIGAN
Computation of Legal Debt Margin - Unaudited

Taxable Value (1)		<u>\$ 95,005,696</u>
Legal debt limit (10% of Taxable Value) (2)		\$ 9,500,570
Debt applicable to limitation:		
Gross bonded debt of City	\$ 4,244,990	
Less: Revenue bonds	(3,734,990)	
Special Assessment Bonds	(25,000)	
Amounts available for repayment of general obligation bonds	<u>320,475</u>	
		<u>805,475</u>
LEGAL DEBT MARGIN		<u>\$ 8,695,095</u>

(1) Includes properties subject to Industrial Facility Tax (from Table 3).

(2) Article VII, Paragraph II of the Constitution of the State of Michigan of 1963, as amended.

Table 8

CITY OF BRIDGMAN, MICHIGAN
Computation of Direct and Overlapping Bonded Debt - Unaudited

	(1) Net Debt Outstanding	Percentage Applicable to City of Bridgman	Amount Applicable to City of Bridgman
Direct:			
City issued bonded debt	\$ 510,000	100.00%	\$ 510,000
Overlapping:			
Berrien County	8,925,919	1.91%	170,485
Lake Michigan Community College	7,600,000	1.78%	135,280
Berrien County Intermediate School District	50,000	1.84%	920
			<u>306,685</u>
 TOTAL			 <u>\$ 816,685</u>

(1) Excludes self-supporting debt.

SOURCE: Municipal Advisory Council of Michigan

Table 9

CITY OF BRIDGMAN, MICHIGAN
Ratio of Annual Debt Service Expenditures
for General Bonded Debt to Total
General Governmental Expenditures - Unaudited
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Annual Debt Service	Total General Governmental Expenditures (1)	Ratio
2004	\$ 245,938	\$ 1,696,511	14.5%
2003	257,218	1,597,951	16.1%
2002	346,690	1,946,305	17.8%
2001	305,346	1,623,394	18.8%
2000	354,293	1,503,559	23.6%
1999	410,049	1,484,530	27.6%
1998	396,199	1,393,812	28.4%
1997	357,444	1,203,691	29.7%
1996	344,508	1,128,457	30.5%
1995	221,898	966,567	23.0%

(1) Includes general, public improvement, general debt service and building authority funds

Table 10

CITY OF BRIDGMAN, MICHIGAN
Demographic Statistics - Unaudited

Year	United States Census Bureau			School Enrollment	Unemployment Rate
	Population	Per Capita Income	Median Age	(1)	(2)
2004	2,428	25,405	41	1,031	4.1%
2003	2,428	25,405	41	1,022	4.3%
2002	2,428	25,405	41	1,006	3.6%
2001	2,428	25,405	41	1,002	5.0%
2000	2,428	25,405	41	1,043	2.4%
1999	2,140	N/A	N/A	944	2.4%
1998	2,140	N/A	N/A	989	2.7%
1997	2,140	N/A	N/A	959	3.2%
1996	2,140	N/A	N/A	893	3.6%
1995	2,140	N/A	N/A	904	3.4%
1994	2,140	N/A	N/A	911	3.7%

(1) Source: Bridgman Public Schools.

(2) Source: Southwestern Michigan Commission

Table 11

CITY OF BRIDGMAN, MICHIGAN
Construction Data and Property Value - Unaudited
Last Ten Calendar Years

Year Ended December 31,	Commercial Construction		Residential Construction	
	Number of Units	Value	Number of Units	Value
2003	-	-	11	\$ 1,476,419
2002	-	-	11	1,780,440
2001	-	-	13	2,033,061
2000	-	-	8	1,211,100
1999	-	-	17	2,191,469
1998	1	\$ 165,140	20	2,949,300
1997	4	136,800	13	1,838,762
1996	-	-	40	6,681,969
1995	-	-	18	2,323,186
1994	1	1,189,600	17	3,029,500

Equalized Property Values

Year	Commercial	Personal	Residential	Industrial	Agricultural	Industrial Facilities Exemption	Total
2003	\$ 11,118,800	\$ 4,211,500	\$ 91,844,405	\$ 7,632,700	\$ 8,232,200	\$ 2,611,600	\$ 125,651,205
2002	11,043,100	7,817,200	79,540,600	7,632,700	6,111,000	1,744,500	113,889,100
2001	10,548,900	7,554,900	74,604,300	6,871,500	6,111,000	1,328,705	107,019,305
2000	10,548,900	7,554,900	74,604,300	3,674,476	6,111,000	3,197,024	105,690,600
1999	10,197,200	8,599,000	71,211,800	6,626,500	4,759,000	3,718,700	105,112,200
1998	9,613,800	9,084,000	65,509,600	6,263,800	4,759,000	2,920,400	98,150,600
1997	9,292,800	9,013,600	61,239,700	5,794,800	2,192,800	2,980,300	90,514,000
1996	9,109,900	9,114,800	60,409,400	5,484,900	2,192,800	3,529,100	89,840,900
1995	8,746,700	8,582,215	56,385,500	4,538,700	2,516,600	2,146,900	82,916,615
1994	7,912,600	7,816,200	44,624,800	4,493,313	2,466,268	2,065,500	69,378,681

Table 12

CITY OF BRIDGMAN, MICHIGAN
Principal Taxpayers - Unaudited

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Total Taxable Valuation (1)</u>	<u>Percentage of Total Taxable Valuation</u>
American Electric Power	Utility	\$ 3,127,800	3.29%
Weldun International	Manufacturing	2,383,398	2.51%
Great Lakes Metal Stamping	Manufacturing	1,991,072	2.10%
Pemco Die Casting	Manufacturing	1,646,864	1.73%
Michigan Department of Natural Resources	Government	1,639,830	1.73%
Ad-Co Die Casting	Manufacturing	1,221,749	1.29%
Jordan Nursing Home	Housing	1,128,915	1.19%
Bridgman Estates	Housing	792,028	0.83%
Robert Bosch	Public utility	699,949	0.74%
Sunset Landing Apartments	Manufacturing	574,877	0.61%
		<u>\$ 15,206,482</u>	<u>16.02%</u>

(1) Includes ad valorem and Industrials Facilities Tax property.

Table 13

CITY OF BRIDGMAN, MICHIGAN
Miscellaneous Statistics - Unaudited

Date of Incorporation	1949
Form of Government	Council/Manager
Number of employees (excluding police and fire):	
Full-time	11
Part-time	0
Seasonal	12
Area in square miles	2.9
Election data (as of the November, 2004 general election)	
Number of registered voters	1,634
Number of ballots cast	1,222
Percentage of participating voters	74.8%
City of Bridgman facilities and services:	
Miles of streets:	
Major streets	5.6
Local streets	8.4
Number of street lights	243
Culture and recreation:	
Community centers	2
Beach with campgrounds	1
Number of campsites	70
Beach acreage	40
Parks (including undeveloped land and green space)	2
Park acreage (City-owned)	8
Swimming pools (School-owned)	1
Playgrounds (City-owned)	3
Playgrounds (School-owned)	1
Fire Protection:	
Number of stations	1
Number of fire personnel and officers:	
Full-time	0
Volunteer	17
Number of calls answered	154
Police Protection:	
Number of stations	1

CITY OF BRIDGMAN, MICHIGAN
Miscellaneous Statistics - Unaudited (continued)

Number of police personnel and officers:	
Full-time officers	4
Part-time officers	2
Number of patrol units	3
Number of law violations:	
Physical arrests	233
Traffic violations	531
Uniform Crime Reporting (Part I and II)	186
Wastewater System:	
Miles of sanitary sewers (combined with storm)	20
Miles of storm sewers (combined with sanitary)	25
Member of Galien River Sanitary District	
Daily average treatment (in gallons)	294,786
Maximum daily capacity of treatment plant (in gallons)	500,000
Water System:	
Miles of water mains	25
Number of service connections:	
Combined water and sewer	1,890
Water only	167
Sewer only	2
Number of fire hydrants	225
Daily average consumption (in gallons)	320,000
Maximum daily capacity of water plant (in gallons)	1,400,000
Storage tanks (500,000 gallon capacity)	1
Facilities and services not included in the primary government:	
Cable Television System:	
Miles of service	30
Education:	
Number of elementary schools	1
Number of elementary school instructors	26
Number of middle schools	1
Number of middle school instructors	22
Number of secondary schools	1
Number of secondary school instructors	26
Number of counselors	3
Nursing Homes:	
Number of nursing homes	1
Number of patient beds	105

Table 14

CITY OF BRIDGMAN, MICHIGAN
Salaries and Surety Bonds of Principal Officials - Unaudited

Title	Name	Annual Salary	Amount of Surety Bond
Manager	Aaron Anthony	\$ 64,500	\$ 25,000
Assessor	Patricia DePriest	17,200	25,000
Clerk	Elaine Thomas	33,800	25,000
Public Works Superintendent	Richard Knuth	46,900	25,000
Parks/Water & Sewer Superintendent	Tim Kading	50,500	25,000
Police Chief	Ted Post	45,000	25,000
Treasurer	Laura Brychta	36,500	25,000



REHMANN ROBSON

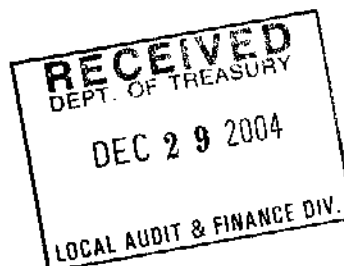
Certified Public Accountants

A member of THE REHMANN GROUP

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September 3, 2004

The Honorable Mayor and
Members of the City Commission
The City of Bridgman
Bridgman, Michigan



We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the of the **City of Bridgman** as of and for the year ended June 30, 2003, and have issued our report thereon dated September 3, 2004.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated July 14, 2004 our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the City of Bridgman's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the City of Bridgman's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Bridgman's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Bridgman are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2004. We noted no transactions entered into by the City of Bridgman during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction. We evaluated the key factors assumptions used to develop the original cost and accumulated depreciation of the City's infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed certain adjustments related to the proper accounting for various transactions, in our judgment. These proposed adjustments, which were all recorded by the City, did not have a significant effect on the City's financial reporting process, either individually or in the aggregate.

CITY OF BRIDGMAN, MICHIGAN

ACCOUNTING MEMORANDUM

For the Year Ended June 30, 2004

During our audit, we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. A separate report dated September 3, 2004 contains our report on the City's basic financial statements. This memorandum does not affect our report dated September 3, 2004, on the those statements of the City of Bridgman.

We will review the status of these comments during our next audit engagement. We have already discussed these matters with City management and we would be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the City in implementing the recommendations.

Internal Controls over Journal Entries

In connection with the implementation of Statement on Auditing Standards (SAS) No. 99, *Consideration of Fraud in a Financial Statement Audit*, we performed certain audit tests relative to the City's internal controls over journal entry processing. In this new SAS, the AICPA reminds auditors that management is often in the best position to perpetrate and conceal fraud by overriding internal controls and/or inappropriate use of journal entries. Fortunately, our testing revealed no evidence of inappropriate activity or management override of internal controls.

However, our testing did identify that the internal controls over journal entry approval are lacking. The City does not currently have a policy that requires any formal review or approval of journal entries before they are posted into the accounting system. As a routine check and balance, we recommend that the City require a review of all proposed journal entries by a second individual with sufficient knowledge and understanding of the proposed entry to judge its appropriateness.

Sewer Billings

As part of our audit, we tested internal controls over the sewer and water billing process. We noted that sewer rates changed effective July 31, 2004 and billings were changed from a monthly to a quarterly basis. Our testing revealed an apparent computer error that resulted in approximately \$1,800 of understated billings. Management assessed the cost/benefit of billing the balance to sewer customers affected by the error and determined that the costs outweighed the benefits of doing so.

We recommend that management periodically recalculate billings to ensure that the system is properly calculating sewer and water billings.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Bridgman's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This report is intended solely for the information and use of the City Commission and management of the City of Bridgman, the State of Michigan, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Rehmann Johnson